The Budget in Brief

April 26, 1993

Canada

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Department of Finance Canada
Ministère des Finances Canada

Ce document est également offert en français.

Overview

The goal of this budget is to position the economy for more job-creating growth by steadily reducing the burden of deficits and debt.

To meet this objective, the budget delivers:

- No new taxes and no tax increases;
- More than $30 billion in spending cuts and other measures.

This spending restraint will make it possible for the federal government to stop new borrowing in both Canadian and foreign markets by 1997-98, and begin to reduce the debt.

The budget also highlights an initiative for a co-operative national attack on all government debt.

"There is only one taxpayer. Canadians want a national solution to the national debt problem, and they want their governments to act now.

"This budget sets out a responsible, achievable course of action. It builds upon the actions in previous federal budgets, but recognizes that a problem that began two decades ago will not disappear overnight.

"It also underlines that by working together as governments and as Canadians, we can make an immediate and fundamental change in the prospects for our economy, our country and our people."

Don Mazankowski
Minister of Finance
April 26, 1993

Rising concern about deficits and debt

The 1993 budget is presented at a time of unprecedented public concern about the excessive spending and borrowing habits of our governments.

Canadians know that a household can't keep running up credit card bills and borrowing to pay interest. They have seen what happens when governments act this way:

- Taxpayers pay more and more for less and less service from government because interest on the debt eats up a growing share of the tax dollar. Higher taxes act as a brake on the economy, and less economic activity means less growth and fewer jobs.
- Home buyers pay higher mortgage rates because government borrowing drives up interest costs. Higher interest rates discourage investment, growth and job creation.
- Finally, excessive borrowing forces Canada to rely more and more on foreign lenders. This leaves Canadians with less and less control of their own economic future.

Actions for growth and competitiveness

The government has been working to help Canadians build a stronger economy that can adapt, compete, create jobs and prosper in today's rapidly evolving global environment.

Key policies include:

- Bold trade initiatives to secure and expand access to markets;

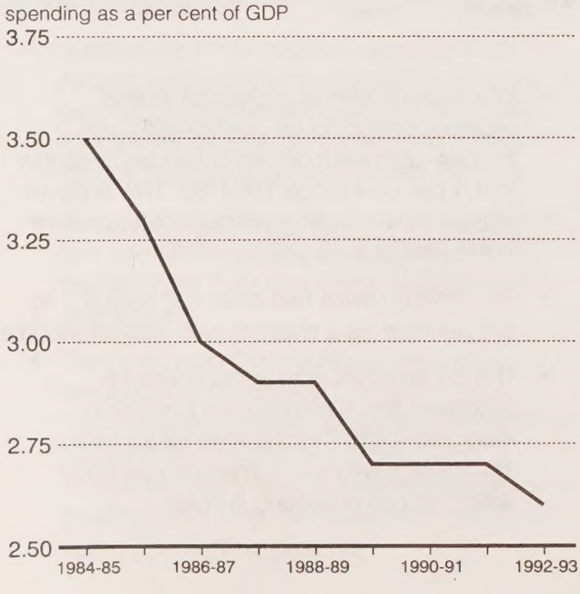
- Innovative job training initiatives to help Canadians adapt to a changing workplace;
- Tax reforms to increase incentives for work, investment and prosperity; and
- Regulatory reform and privatization to reduce the burden of government and improve efficiency.

Spending control policies

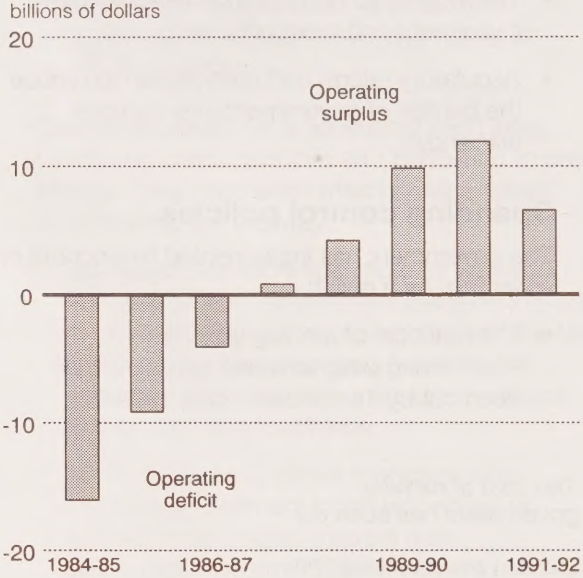
The government has implemented firm control of spending. As a result:

- The real cost of running government – delivering programs and services – has been cut by 14 per cent since 1984-85.

The cost of running government has been cut



A marked turnaround in the operating balance after 1984-85



- The average annual growth of federal program spending (all spending except interest payments on the debt) has been cut to 4.1 per cent since 1984-85. This is down sharply from yearly growth of 13.8 per cent in the previous 15 years.
- The federal deficit has been cut from 8.7 to 5.1 per cent as a share of our national income.
- The government now spends less on programs and services than it raises in revenues – and has done so for six years. This means we have turned an operating deficit into an operating surplus.

Helping Canadians deal with a global economy

In recent years, a painful economic slowdown has affected households, businesses and governments around the world.

To help Canadians cope with the downturn and adapt to global competition, the government took firm action in the February 1992 budget and the December economic statement.

- Income taxes were cut and the child benefit system was restructured and enriched. This is injecting $1.7 billion into the economy this year alone.
- RRSP rules were changed so that Canadians could withdraw funds without penalty to buy or build homes. More than $1.4 billion of these funds have been invested in homes by 148,000 Canadians.
- Support for small business was boosted. Access to financing has been improved by overhauling the *Small Business Loans Act*. Indications are that banks will lend a billion dollars more to small businesses this year.
- Spending on worker training and adjustment has been increased to $3.8 billion. This will benefit more than one million Canadians this year alone.
- The government announced major new strategic investments in Canada's transportation and communications networks. Infrastructure projects that will create 15,000 person-years of employment are now getting under way. An additional 15,000 will come from further projects.

- New rules streamlined the tax treatment of corporate research and development, enriching it by $230 million.
- Tax relief was provided for the manufacturing sector. Since August, manufacturing shipments have grown at an annual rate of almost 15 per cent.

All of these measures have been implemented and they are working. The Canadian economy has created 200,000 full-time jobs since August.

Measures balanced by spending cuts

These measures were funded entirely through spending cuts.

- Departmental operating budgets were cut.
- Salaries were reduced for Cabinet ministers and frozen for MPs and public servants.
- Grants and subsidies to most organizations were reduced by 10 per cent.
- Government was streamlined by eliminating or restructuring agencies, commissions and boards.
- Measures were introduced to control unemployment insurance costs.

As a result of these actions, program spending in 1992-93 is on target with the December 1992 forecast – and $500 million below the forecast in the February 1992 budget.

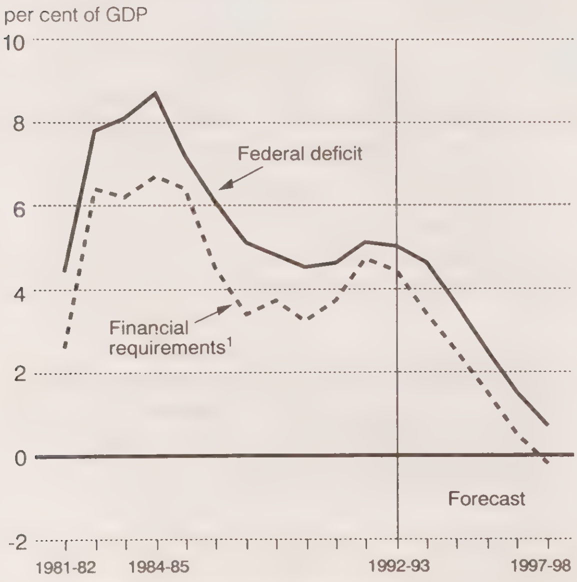
Meeting the fiscal challenge

During 1992, the world economy grew more slowly than expected. The result for Canada was less-than-expected growth and lower government revenues – more than $9 billion below the forecast in the 1992 budget.

As a result, the deficit for 1992-93 is now projected at $35.5 billion – $1.1 billion higher than forecast in December.

The 1993 budget takes the necessary corrective steps to reduce this year's deficit to $32.6 billion (the target set out in last December's economic statement). And it delivers further actions to reduce the deficit sharply over the next five years.

Putting an end to new borrowing



[1] Excluding foreign exchange transactions.

Reducing spending

The budget sets out a five-year plan to eliminate new federal borrowing by cutting back spending and making government leaner and more efficient.

The key to the plan is this: **Federal government program expenditures will be held to zero real growth – no greater than inflation.**

The measures in the budget extend and reinforce the actions in the December statement. All told, expenditure cuts and other measures will deliver $30.7 billion in savings.

Cutting the cost of government

The first priority in reducing spending is to go further in cutting the operating costs of government.

- **Operating budgets**, including reserves, of federal departments will be cut by an additional $300 million in both 1993-94 and 1994-95, rising to $1.2 billion in 1997-98.
- In combination with the December statement's wage freeze and operating budget reductions, total savings will be $7.5 billion over five years.

These are significant cuts. They will mean reduced service levels and the closing of offices and points of service. To improve efficiency while cutting costs, the federal government will have to employ fewer people.

Restraining program spending

- **Defence spending** will be frozen in real terms beginning in 1994-95. Together with the 1992 restraint measures, this will generate total savings of $5.9 billion over five years.
- In the December statement, funding for **research councils** was frozen for two years. Under this budget, funding will grow by only 1.5 per cent a year after 1994-95 – matching the expected rate of inflation.
- The same limit – 1.5 per cent – will be placed on the growth of government spending on **international assistance**.
- The December statement reduced most federal **grants and contributions** to private sector organizations and advocacy groups by 10 per cent this year and next. Funding will be reduced by a further 15 per cent in 1995-96 and 20 per cent for each of the following two years.
- **Regional development funding** levels will be reduced by a further $90 million in 1993-94, and by $100 million for the two following years. A shift from grants to repayable contributions over time will provide a pool of funds for new regional development projects and further reduce the need for government financing by 1997-98.

  In addition, the government will not renew Economic and Regional Development Agreements in both forestry and mining as they expire. The future of such agreements in other areas will be reviewed.

- Operating subsidy levels will be reduced by $50 million in 1995-96 and $100 million in each of the following two years for both the **CBC and VIA Rail**.
- The **unemployment insurance** benefit rate will be extended at its current level.
- The government, through the Canada Mortgage and Housing Corporation, will not increase its support for social housing beyond the current level of about $2 billion a year. However, CMHC's special purpose funding for shelters for victims of violence, for housing on Indian reserves and for the disabled will continue as planned.

The Expenditure Control Plan – Direct fiscal impact of measures announced in December 1992 Statement and April 1993 Budget

	1993-94	1994-95	1997-98	Five-year savings
	(millions of dollars)			
A. Reductions in grants and contributions				
Regional development funding	204	230	415	1,420
Transportation subsidies	66	98	109	486
Cultural subsidies	33	33	66	246
Other	356	386	598	2,394
Total	659	747	1,188	4,546
B. Programs constrained				
Unemployment insurance benefits				
Benefit rate	550	1,000	1,000	4,550
Voluntary quitters	300	600	600	2,700
Defence	361	974	2,014	5,864
International Assistance	261	309	464	1,804
Social housing	8	59	227	600
Research councils	39	73	166	550
Total	1,520	3,016	4,470	16,068
C. Reducing operating costs				
VIA Rail	–	–	100	250
Canadian Broadcasting Corporation	–	–	100	250
Departmental operating budget cuts	998	1,217	2,072	7,531
Total	998	1,217	2,272	8,031
D. Total spending reductions	**3,177**	**4,980**	**7,930**	**28,645**
E. Other actions	**625**	**800**	**–**	**2,025**
F. Total deficit reductions	**3,802**	**5,780**	**7,930**	**30,670**

No cuts to funding for provinces, seniors

Two major areas representing about $50 billion in program spending – about 40 per cent of the total – have again been exempted from spending reductions.

- Income security benefits for the **elderly**, programs specifically for the **disabled**, **veterans'** pensions and allowances, the **Canadian Jobs Strategy, famine relief and certain native programs** will not be cut.
- In recognition of the national nature of the fiscal problem, no additional restraint will be imposed on major federal **transfers to provinces**. These will continue to grow by almost 4 per cent annually over the next five years – faster than all other program spending.

Tightening the Spending Control Act

As promised in the 1992 budget, the government will tighten the program spending limits under the *Spending Control Act* to reflect full funding of pensions and restructuring of the child benefit system.

- Also, the limits under the Act will be further reduced to bring them into line with the spending reductions set out in this budget.

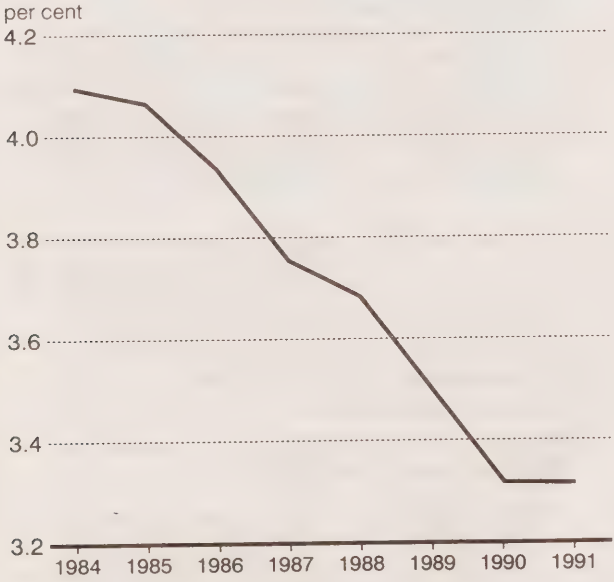
Streamlining government

Just like businesses, governments must reduce costs and operate more efficiently. The budget measures are designed to encourage continued improvement.

Building on the streamlining actions in the 1992 budget, a further 12 government organizations will be eliminated or restructured.

- Legislation will be introduced to amalgamate the two departments of Taxation and Customs and Excise into a single new Department of National Revenue.
- Eight advisory bodies whose functions are no longer needed or can be carried out in another way will be eliminated. Two other advisory bodies – the National Advisory Council on Aging and the National Council of Welfare – will be merged.

Federal employment has been reduced significantly as a share of the total Canadian work force



Privatization

Since 1984, the government has privatized or dissolved 39 Crown corporations and other corporate interests. The number of full-time Crown corporation employees has been reduced by nearly 90,000.

- This year, the government will examine the feasibility of divesting its interests in Canarctic Shipping Company and the Norman Wells oil project.
- We will also study the potential advantages of privatizing or commercializing certain operational services, such as Transport Canada's helicopter fleet operations.

Improving service

In 1992, three pilot business centres were established to provide a single point of contact for business services.

- The government will work with other levels of government to provide such centres in at least one major urban area in each province. The result will be better service for business and cost savings for governments.

Reducing the regulatory burden

- In the 1992 budget, the government launched a major review of regulatory programs. Preliminary analysis of more than 700 regulations suggests that one in four will be struck from the books.

Simplifying the GST

- Reducing the cost for taxpayers of complying with the tax system is a high priority. The government will announce early improvements

to the Quick Method of GST accounting which will simplify the tax for hundreds of thousands of small businesses.

Improving cash management

The budget introduces measures to streamline government operations and improve cash management.

- The rules for personal income tax instalment payments will be changed. Some 300,000 people who would owe relatively small amounts of tax will no longer have to make quarterly instalments. An additional 500,000 higher-income taxpayers will be required to pay on a quarterly basis.
- Beginning in 1994, the GST Credit to individuals will be paid twice a year – in April and October – instead of quarterly. The total amount of GST Credit received by eligible individuals over a calendar year will remain the same.

Neither of these measures will increase tax rates. Only the timing of government payments and receipts will be affected.

■ *Strong growth prospects*

Canada's economic prospects have improved substantially in the past few months, led by record exports to the U.S. These exports reflect the dramatic improvement in Canadian cost competitiveness and increased access to the U.S. market under the Free Trade Agreement.

The 24-nation OECD has forecast that Canada will have the fastest economic growth among major industrial nations this year and next.

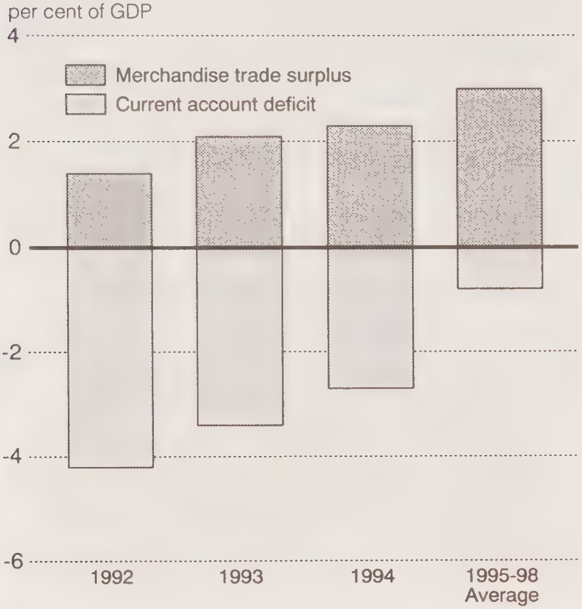
Growth outlook: The 1993 budget forecasts real economic growth to average close to 3 per cent this year, increasing to more than 4.5 per cent in 1994.

Jobs: Job prospects will improve steadily. We expect that 300,000 new jobs will be created from the fourth quarter of 1992 to the fourth quarter of this year, and a further 400,000 jobs during 1994. We also expect an increase in labour force participation, which will slow the overall improvement in the unemployment rate.

Inflation: Inflation is expected to average 2.5 per cent in 1993. This is higher than 1992, reflecting the depreciation of our dollar and some indirect tax increases by provinces.

Employment growth strengthens

Trade surplus improves



In 1994, inflation is forecast to decline once again to below 2 per cent, and to average 1.5 per cent from 1995-98. Sustained low inflation will help keep interest rates low, with further declines in long-term rates.

Trade: Canada's exports are forecast to grow strongly in 1993 and 1994. Our trade surplus and current account balance will improve.

Encouraging innovation, technological change

In its December economic statement, the government set aside $400 million for tax changes to help firms increase innovation and the use of fast-evolving technologies.

The budget provides details of these proposed changes. These measures will:

- Improve the tax treatment of rapidly depreciating equipment;
- Revise tax rules regarding patents, to strengthen the ability of firms to access new technologies; and
- Improve the effectiveness of investment tax incentives, particularly to small innovative companies.

Restoring fiscal balance

The expenditure control measures in this budget will restore the fiscal balance of the federal government over the medium term.

- Federal program spending will be cut to 13.9 per cent of Canada's national income in 1997-98 – the lowest level in over 30 years.
- Excluding transfers to provinces, program spending will grow at an average rate of only 1.5 per cent. This is below the projected five-year inflation rate.
- By 1997-98, the government will end new borrowing and begin to reduce its publicly held debt.

Lowest program spending as a share of the economy in more than 30 years

- The deficit will be cut to $8 billion. That will be less than 1 per cent of national income, down sharply from 5.1 per cent in 1991-92 and 8.7 per cent in 1984-85.

Working together for fiscal progress

The fiscal situation facing governments is a national issue.

More than ever, Canadians want the federal and provincial governments to work together on solutions to our deficit and debt problem.

- To address this goal, the Minister of Finance has invited provincial and territorial finance ministers to a special meeting in Ottawa on May 30-31 to begin working on a co-operative approach to the debt problem.

Conclusion

"Canadians want less government borrowing, more jobs, lower taxes and more choice for the future.

"That is what this budget is all about. It charts a responsible, achievable course to restore the financial health of government and increase the job-creating strength of the economy ...

"The foundation for sustained growth, jobs and prosperity in the newly emerging economy is being put into place. It is there to be strengthened and built on, for the greater benefit of all Canadians.

"Realism tells us that it will not be easy to win the battle against high deficits and rising debt. But experience shows us that Canadians have what it takes to succeed.

"With discipline, courage and co-operation, we can achieve the success that will make Canada a stronger, more prosperous country for the balance of this decade and the new century to come."

Don Mazankowski
Minister of Finance
April 26, 1993

For more information . . .

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